

Cabinet

Thursday, 22 February 2024

Report of the Portfolio Holder for Housing and Planning

Housing Revenue Account Business Plan 2023/4-2053/4

Exempt Information

N/A

1.0. Purpose

- 1.1. To present the updated baseline assessment and financial projections for the Council's Housing Revenue Account (HRA) covering the 30-year period 2023/4-2053/4. A detailed financial analysis, supported externally, is shown in **Annex One** and incorporates revised budgets and assumptions.

2.0. Recommendations

It is recommended that Cabinet:

1. Approve the base line and HRA investment forecast shown at **Annex one**
2. Endorse the financial modelling at **Annex one and two**, evidencing that the HRA balances in the medium term. But from 2042/43, the longer-term horizon scan shows that the plan is not financially sustainable.
3. Agree Consultation with Tenants and Leaseholders on the proposed scenarios around service efficiency to support interventions longer term to balance the HRA budget as shown at **Annex three**
4. Delegate final approval, of the detail, in the full and summary HRA Business Plan working papers to the Portfolio Holder Housing & Planning in consultation with the Assistant Director Neighbourhoods shown at **Annex four**
5. Approve the creation of a *HRA Business & Viability Planning Project* within the Social Housing Regulatory Programme to ensure oversight, scrutiny and monitoring of the consultation and progression of the service review opportunities identified.
6. Delegate Authority to the Portfolio Holder of Housing & Planning, in conjunction with the Council's s151 Officer, to write to Department Levelling Up Communities and Housing. To set out the financial challenges and further impact of government intervention on rent setting regarding the Council's ability to invest in its stock achieving environmental ambitions particularly around decarbonisation.
7. To endorse continued financial support and modelling with Housing Finance Associates supporting the Council's HRA business planning, costs met from existing budgets.

3.0. Executive Summary

- 3.1 The Housing Revenue Account underpins the Council's housing finance and in setting a baseline together with effective medium- and longer-term scenario planning directly contributes to the Council's Corporate priorities and vision setting.

Despite freedom and flexibilities announced in 2012 under Council Housing Finance Reform, there has continued to be government intervention on rent setting which has impacted the financial forecasting over the [last 12 years](#).

The HRA Business plan was last reviewed in full in 2018-2048 ([Cabinet 27/09/2018](#)). It is recommended to review in full every 5-years therefore it is timely to present this for approval now. The Council already builds in annual reviews as part of its routine budget setting.

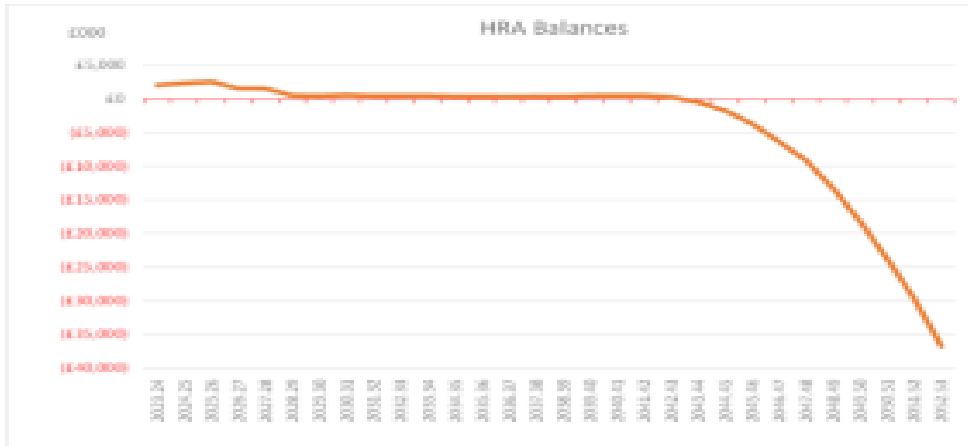
As part of the Council's due diligence the Council has engaged external resources to review; testing regulatory compliance and seeking to add assurance to the business planning process – given it remains best practice. The planning period remains 2023-2053 to align with the Council's own MTFs forecasting and because the base line assumptions were undertaken using 2023 financial data.

- 3.2. The HRA Business Plan for Tamworth Council outlines the challenges, assumptions, projections, and proposed options for the period 2023-2053 to ensure financial viability. The plan reflects changing economic circumstances, new regulatory requirements, and the impact of global events such as the COVID-19 pandemic as well as escalating international conflict in Europe and the Middle East.
- 3.3. In terms of headline figures, the key ones for investment levels based on current prices and excluding the effects of inflation or stock movements can be summarised as:-

- Major works (i.e. component replacements)
 - Spend over 30 years to 2052/53 - £164.944m
 - Average spend per property over 30 years - £38,413
 - Average annual spend per property over 30 years - £1,280
- Decarbonisation (net additional cost, after allowing for major works)
 - Spend over 27 years to 2049/50 - £113.000m
 - Average spend per property over 27 years - £26,316
 - Average annual spend per property over 27 years - £975

The plan assumes that rents paid by existing tenants will increase at the maximum rate permitted by the government, and it anticipates significant financial implications due to the new Social Housing Regulation Act 2023 to continue to drive improvement and secure compliance.

The chart below projects the level of HRA balances at the end of each year based on the Business Planning assumptions: In the chart the orange line projects the cumulative HRA balance at the end of each year.



Use of balances until 2027/28 reflects the authority’s own medium-term budget. The HRA balance is then maintained at the minimum level, with any “spare” balances used to finance the capital programme or reduce debt. The authority broadly maintains its minimum HRA balance until 2041/42. However, cost pressures throughout the period impact on the ability to maintain the minimum balance in 2042/43, and from 2043/44 onwards the HRA falls into deficit. If left unaddressed, this would be a potentially unlawful situation. Recognising that from 2042/43 the Business Plan needs to address the above problem.

During this period, some stability may return to the UK economy after the shock of the COVID-19 pandemic and there may be greater political certainty. It is therefore recommended that, as part of the Social Housing Regulatory Programme, the Council establishes a HRA Business Planning & Viability Project which will incorporate multiple cost saving/income generating options and explore these fully in consultation with tenants and leaseholders (draft consultation document shown at Annex three)

- 3.3. Challenges facing Tamworth’s HRA Business planning were shared with the Homelessness and Housing Advisory Board on 23/11/23 (**Annex Two**); these considerations were developed further in the HRA Business plan draft text shown in **Annex three and four**. This latest forecast represents the assumptions; income and expenditure position over the next 30 years and range of scenarios on which to base consultation with tenants and leaseholders.

A - Challenges for Tamworth

Rents:

- Previous rent constraints imposed by Government
- Historically low house price values and low earnings – drives lower rental levels
- Decisions not to increase rents to maximum allowed
- Rent levels below local formula (on average £3.50pw)

Right to Buy:

- Retention of receipts for reinvesting (14-1) with match funding from HRA resources

Costs:

- Costs relatively low, but pressures still need to be constrained
- Facing the same issues as others; ageing stock with substantial investment required in changing environment.
- Additional decarbonization requirement

Effects:

- Lower capacity for investment, unless something changes
- May have limited scope to improve position by making efficiency gains

- 3.4 Cross-party comments have been reflected in the HRA Business planning assumptions and narrative shown at Annex three and four. Members, including Tenant Consultative Group representatives, support the consultation on options and scenario planning in the longer term to ensure these areas are initially prioritised by tenants and leaseholders. It is recommended the arrangements for this is delegated to the Portfolio Holder of Housing & Planning, in consultation with the Assistant Director Neighbourhoods, so that this ensures tenants and leaseholders are at the heart of steering the future of the service.

Options and recommendations emerging will then be reported back to Cabinet as they are developed.

- 3.5 The HRA balances in the medium term; but the plan projects that after 2042, the Housing Revenue Account will go into deficit, necessitating the need to intervene using conventional levers such as increasing income or reducing expenditure. To address this there are various options, including making efficiency savings, reducing service costs, or a combination of both. The council plans to consult with stakeholders initially to prioritise areas for review.

The financial projections in the HRA Business Plan for Tamworth Council indicate that until 2042, the Housing Revenue Account (HRA) is expected to have enough money to meet all planned expenditures and maintain reserves of £0.5 million each year. However, after 2042, the spending is projected to exceed income, leading to a decline in reserves and a potential deficit in the HRA, which is not allowed. By 2053/4, the Council expects to need to borrow up to **c£385 million** to meet the cost of works to improve tenants' homes, with the interest on this borrowing being repaid from rents. The current level of HRA debt is c£70m. The plan also outlines various assumptions, such as the increase in rents, expected expenditure on major works per property, and the need to address financial challenges earlier due to the impact of borrowing costs.

Baseline summary: -

The HRA baseline projections encompass various financial aspects such as expenditure, investment, capital financing, borrowing, and rental income. The projections indicate a deteriorating long-term financial position for the authority's HRA, driven by several factors:

- High inflation rates, particularly affecting building costs.
- Significant investment requirements for decarbonisation works, adding £113 million (plus inflation) over 30 years.
- A previous government-imposed cap on rent increases for existing tenants, which limited revenue growth. Increased expectations for interest rates on new borrowing.

These factors contribute to rising debt levels, insufficient "wiggle room" to manage emerging risks, and a projected deficit in the HRA balance from 2043/44 onwards, indicating an unsustainable long-term position.

The baseline assumptions reflect the authority's revised revenue forecast and medium-term projections for capital and revenue, incorporating emerging cost pressures such as decarbonisation works and regulatory requirements. Thus, the projections highlight a continuous rise in HRA-related debt, leading to a deficit situation by 2044/45. Additionally, interest cover performance declines over the medium to long term, indicating a challenge in meeting interest payments on debt.

4.0 Resource Implications

- 4.1. The HRA Business plan is reported to Cabinet at the same time as the Councils Medium term Financial Strategy to ensure it is aligned and forms part of the Councils budget setting arrangements.
- 4.2. The detailed financial modelling is shown at **Annex one** and has been subject to several political and tenant briefings to inform and support understanding including the need to balance service re-design with tenant and leaseholder expectations.
- 4.3. The analysis of the allocation of resources and its implications revolves around the baseline projections for a local authority's Housing Revenue Account (HRA). The key implications of the resource allocation and baseline projections are as follows:
 1. **Debt Reliance and Financial Performance:** The baseline assumptions indicate a heavy reliance on debt to deliver the long-term capital program, leading to a substantial rise in debt and resulting in the HRA falling into deficit and interest cover performance becoming unacceptable by the end of the projections.
 2. **Operating Surplus and Affordability:** The analysis shows that the authority's operating margin is performing well, with net surplus higher than the median housing association performance for 2022. This suggests limited scope to address weaknesses in affordability simply by reducing revenue budgets.
 3. **Options for Addressing Weak Affordability:** The analysis (**Annex one**) outlines seven measures alongside 10 illustrative scenarios available to address the weak long-term affordability resulting from the current projections, including reducing operating costs, increasing income, securing additional funding, rescheduling, or scaling back existing plans, and generating additional receipts from selling assets.
 4. **Risks and Mitigation:** The projections highlight risks such as rising debt levels, unaffordable capital financing charges, and insufficient "wiggle room" to respond to emerging risks and pressures after the medium term. It emphasises the need for the authority to take action to minimise its exposure to these risks.
 5. **Menu of Scenarios and Sensitivities:** The following extract from Annex one presents a menu of scenarios and sensitivities, including cancelling the provision of new units, applying rent flexibility, implementing rent increases, and seeking additional funding to help pay for decarbonisation works.

- A. Cancelling the provision of new units from 2024/25
- B. Applying 5% rent flexibility to a proportion of the authority's re-lets
- C. Implementing a 7% rent increase in April 2024, which is lower than the maximum rent increase of 7.7%
- D. Implementing a 5% rent increase in April 2024, which is lower than the maximum rent increase of 7.7%
- E. Implementing a rent freeze in April 2024
- F. Government policy reverts to CPI+1% rent increases for four years from April 2025
- G. Implementing a 2% pa efficiency programme for 5 years from 2025/26
- H. The authority is able to generate 20% funding for its decarbonisation programme
- I. Extend the decarbonisation programme to 2060

However, before any of these are pursued it is recommended to consult with tenants and leaseholders on their priorities in order that each one can be tested given the potential for organisational wide impact. This also puts tenants and leaseholders at the heart of decision making.

In addition, the approach to assessing the viability of measures to improve the sustainability of the HRA business plan will also be linked to the overall approach for the Council and guided by newly emerging Government requirements for Local Authorities to produce Performance Plans relating to a number of defined criteria.

5.0 Legal/Risk Implications Background

5.1. There is a significant risk around the longer-term horizon scanning impacting the HRA business plan. The following table details the material risks, which can be developed as part of the **HRA business planning viability project**.

5.2

Risk	Mitigation
Rising debt levels result in more expensive capital financing charges, which become unaffordable over the long term	<ul style="list-style-type: none"> • Reduce operating costs • Increase income • Secure additional funding • Reschedule or scale back existing investment and service enhancement plans • Generate additional receipts from selling assets on the open market
Debt that does not peak over the medium term increases the authority's exposure to interest rate risks	<ul style="list-style-type: none"> • Review and consult with Tenants and leaseholders on the opportunities to reduce expenditure or increase income
Failure to maximise rental income or continue to bear down on the costs that are charged to the HRA would impact negatively on its financial health	<ul style="list-style-type: none"> • Align and maximise tenants and leaseholders income to in turn maximise income to the Council
Risk of further Government intervention around rent policy	<ul style="list-style-type: none"> • Recognising this as part of the HRA Business plan and taking opportunity to lobby and influence Government policy is understood

6.0. Equalities Implications

6.1. The HRA Business plan does not require a community and equality impact assessment in its own right, rather proposals emerging from it. When the initial consultation has taken place to prioritise the areas tenants/leaseholders want to focus different service design options then this will include a detailed community and equality impact assessment.

6.2. The drafting of the HRA Business Plan has been developed and implemented in consideration of its impact on equality, diversity and inclusivity.

Upon analysis of the long-term financial projections and potential actions for a local authority's HRA plan, it raises several ethical considerations, primarily related to the financial sustainability of the HRA and the potential impact on tenants. For example, reducing operating costs should be approached carefully to avoid compromising the quality of housing and services provided to tenants. Similarly, any increase in income, such as through sustainable rent flexibility charges, should be assessed for its potential impact on tenants, particularly those with limited financial resources.

7.0. Environment and Sustainability Implications (including climate change)

- 7.1. The HRA Business plan seeks to align with environmental sustainability goals, including efforts to mitigate climate change. Initiatives such as decarbonisation works and energy efficiency improvements.
- 7.2. The analysis of the long-term baseline projections for a local authority's HRA plan and the potential actions available to address the weak long-term affordability has several implications for the environment and sustainability, including climate change.

1. Environmental Implications

The baseline projections indicate a substantial level of additional investment in decarbonisation works, which adds to the investment requirement over 30 years. This reflects the authority's commitment to decarbonising and improving the energy efficiency of existing homes, as evidenced by the significant cost of decarbonising the housing stock over the planning period.

Government and Stakeholder Engagement

In this regard, the HRA Business plan suggests making a case to the government and other stakeholders for additional funding to help pay for decarbonisation works. This raises ethical questions about the allocation of public funds and the responsibility of different stakeholders in ensuring the availability of affordable and sustainable housing.

2. Climate Change Implications

The external analysis evidence that high levels of inflation have particularly impacted building costs, which have risen by more than the high rates of general inflation. Additionally, the government's-imposed cap on rent increases for existing tenants has placed additional pressure on HRA balances. These factors, along with expectations for interest rate changes, have significant implications for the financial health of the HRA and its ability to fund decarbonisation works and other sustainability initiatives.

The HRA Viability project over the longer term recognising the financial challenges, will seek to balance investment levels and therefore underscores the importance of addressing climate change and its financial implications for local housing authorities.

Report Author

Tina Mustafa – Programme Director & Assistant Director Neighbourhoods

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